

# **CAPITAL PROJECTS AND BOND OVERSIGHT COMMITTEE**

## **Minutes**

**September 16, 2003**

The Capital Projects and Bond Oversight Committee met on Tuesday, September 16, 2003, at 8:30 AM CDT at the Wendell H. Ford Training Center, in Greenville, Kentucky. Senator Robert Leeper, Co-Chair, called the meeting to order, and the roll was called.

Present were:

Members: Senator Robert Leeper, Co-Chair; Representative Jodie Haydon, Co-Chair; Senator Jerry Rhoads; Representatives Robert Damron, Paul Marcotte, and Jim Wayne.

Guests testifying before the committee: Bill Hintze, Governor's Office for Policy and Management; Jamie Link and Joe Meyer, Finance and Administration Cabinet; Robbin Taylor, Western Kentucky University; and George Burgess, Office of Financial Management.

LRC Staff: Mary Lynn Collins, Nancy Osborne, and Kevin Mason.

Senator Leeper, presiding Chair, called the meeting to order. Representative Damron made a motion to approve the minutes of the August 19, 2003, meeting as submitted. The motion was seconded by Senator Rhoads and passed by voice vote.

Senator Rhoads welcomed the committee to Western Kentucky and introduced local officials, who also thanked the committee for meeting in their area. Brigadier General (Ret.) Larry Barker, Department of Military Affairs (DMA), Kayla Horn and Jerry McCuston, Muhlenberg County Emergency Management Program, welcomed the committee on behalf of the staff at the Wendell H. Ford Regional Training Center, and noted there would be a presentation and tour relating to the complex upon adjournment of the committee's meeting.

Senator Leeper called on Ms. Collins to review correspondence and information items. Ms. Collins said included in the members' folders was follow-up correspondence from Bill Hintze, Deputy State Budget Director, Governor's Office for Policy and Management (GOPM), transmitting a letter of support from Dr. Michael McCall, President, Kentucky Community and Technical College System, for the East Kentucky Science Center scope increase that was on the committee's agenda last month. Also

included in the members' folders were the Kentucky Lottery Corporation's monthly financial report for June 2003, and the monthly staff update on various capital projects.

Senator Leeper next asked Mr. Hintze and Jamie Link, Acting Commissioner of the Department for Facilities Management, to present the monthly project report for the Finance and Administration Cabinet. Mr. Hintze noted that several projects being reported had previously been before the committee.

The first item Mr. Hintze reported was an allocation of \$800,000 from the Emergency Repair, Maintenance and Replacement Account to repair the roof and parapet wall in the Health Services building in Frankfort. In April 2003, an allocation of \$1,200,000 from the Emergency Account was reported to the committee for this project. Mr. Hintze said at the time this project was reported in April, they were not aware of the full scope of the problem, and they have since determined that the cost of this emergency project is \$2,000,000. Consequently, the Finance Cabinet has approved the second allocation of \$800,000 from the Emergency Account. The very substantial cost overrun is related to increased masonry work for the parapet wall repair and the need to maintain contingency funds in the project budget. Mr. Hintze said the Cabinet has explored the alternatives, including any culpability on the part of the contractors. To leave the project unattended – with the growing mold problem – would endanger the health of the employees. He also noted that this latest allocation leaves the Emergency Account with approximately a \$5,000,000 balance.

Commissioner Link added there are concerns that employees will file workplace grievances if the problem is not addressed. He said as they got into detailed design, the full extent of the repairs became evident.

Representative Wayne asked whether the state is appropriately monitoring routine maintenance schedules. Commissioner Link said he had been with the Department for Facilities Management for seven years and that the need for a new roof for the building had been identified in every six-year capital plan and every budget request made during that period.

Commissioner Link introduced Joe Meyer, Associate Director for Architectural Services, Department of Engineering, and Greg Dunbar, the consultant for the project, to answer questions regarding this project. Representative Wayne asked if anyone could be held liable from the initial construction and whether there was any reason for the original estimates presented to the committee in April to be so much off. Mr. Meyer said this problem started some time ago, but was not visible until recently. He said they found the flashing on the roof was actually funneling water into the walls and more wall repair will be required than initially recognized. Mr. Meyer and Commissioner Link said there appears to have been due diligence from all concerned.

Representative Wayne said it is frustrating since the roof has to be fixed. He asked whether there is a routine maintenance program. Mr. Hintze responded that the agency did identify this need in a series of six-year capital plans which indicates that they knew they had a problem. The fact that it had not been funded is a reflection of inadequate resources and of priorities. He said if one looks back over the last couple of biennia, there has been almost no capital investment in the Cabinet for Health Services (CHS) facilities. Most of the physical plants used by CHS are old. There are small maintenance pools for each cabinet but pool projects must be under \$400,000; therefore, statutorily, no major projects can be addressed by these pools. Major maintenance projects over \$400,000 must compete with new projects, and they compete poorly in the larger scheme of things. He said there is no systematic program for major maintenance and there is no schedule or source of funding for the inventory of state facilities. Mr. Hintze said this problem will continue for those agencies with aged facilities: CHS, Department of Corrections, Department of Juvenile Justice, and the Finance and Administration Cabinet (as steward for most state buildings). He said he did not think identification of the projects was the problem. The problem is having sufficient dollars to address the projects.

Representative Wayne asked if it was reasonable for the Finance Cabinet to give the committee a full listing of projects with scheduled maintenance included for consideration by the 2004 General Assembly. He thought it would be helpful in the context of the current budget situation to provide a comprehensive list of projects. Mr. Hintze said he thought that the most comprehensive list of needs would be reflected in the six-year plans. These projects would also be reflected in the agency budget requests.

Commissioner Link said the new software system, Archibus, a complete facilities management package, is being implemented and has a module for identifying preventative maintenance. However, to actually schedule replacement of roofs would be difficult. He said often, the roofs will be part of a larger building renovation project so it might not be identified as a separate project. Mr. Hintze said there used to be a Roof Pool managed by the Finance Cabinet. There have been pools for other types of projects, for example, HVAC and elevators, to address needs that agencies routinely encounter with old facilities. Representative Wayne said that if some of the projects could be crystallized in a report to focus the issue, it might fare better in the budget mix.

Representative Marcotte noted that in the last session, Representative Perry Clark introduced a bill that would set up a process and funding mechanism for major maintenance. Mr. Hintze said the bill, which was the result of a recommendation of the Capital Planning Advisory Board, was passed by the House in the last two sessions, but failed each time to pass in the Senate. It would have mandated a set-aside for all new construction to be used in the future for major maintenance. Under the original proposal, it would also have provided for existing buildings incremental funding over time, provided as a percentage of the value of existing inventory to develop a pool of funds for major maintenance. Mr. Hintze said the proposed major maintenance fund would be

similar to the existing Deferred Maintenance Fund, which currently has no funds and is restricted by statute to small projects under \$400,000. He also noted that the proposal's funding mechanism is similar to the Budget Reserve Trust Fund, in that the component to address existing facilities is to gradually grow to meet established goals. He noted that the maintenance measure is on the radar screen for the currently on-going capital planning process and may be part of the Capital Planning Advisory Board's recommendations in November. Senator Leeper said no action is necessary for allocation of moneys from the Emergency Account.

Mr. Hintze said the Department of Military Affairs has another large installation in Lexington, the former federal Avon facility, called the Bluegrass Station. The facility has many large bays and is rented primarily by defense contractors. There is a need to re-roof some bays and fortunately, there is a combination of federal and restricted (agency) funds available for the project. The restricted funds are from both the agency's maintenance pool and rents collected from the tenants. The cost of the project is \$1,000,000. Representative Damron made a motion to approve the project. The motion was seconded by Senator Rhoads and passed by a roll call vote (5 yes and 1 no).

Mr. Hintze reported that the Nature Preserves Commission is seeking additional funds for a project previously authorized by the General Assembly to purchase the state's largest old growth forest, Blanton Forest in Harlan County. The state is trying to acquire a buffer area and the Kentucky Heritage Land Conservation Board has made an allocation of \$100,000 in restricted funds to add to this project scope. Representative Wayne made the motion to approve the scope increase. The motion was seconded by Representative Damron and passed by unanimous roll call vote.

The last two items were information reports requiring no committee action. Mr. Hintze said last month the Department of Fish and Wildlife Resources reported a land acquisition in Henry County using federal funds. At that time, the agency inadvertently omitted the necessary legal and administrative cost of that project so the scope is being increased by \$12,649. The revised scope is \$436,873.

The final item discussed by Mr. Hintze was a report by the Finance Cabinet concerning the Office for the New Economy. He said that the Cabinet had transferred \$5,000,000 from the Cabinet for Economic Development's operating budget to the High-Tech Investment Pool in the capital budget as directed in the 2002-04 Executive Budget. Mr. Hintze indicated this was a technical adjustment, but that the Office for the New Economy will report to the committee concerning allocations made from the New Economy High-Tech Investment/Construction Pools at a later date.

Commissioner Link reported an emergency lease contract for the Commonwealth Attorney's Office in Hopkinsville, Christian County. He said there were substantial complaints about the leased space concerning rodents, sewage, flooding problems, bad

odors and mold. Consequently, an emergency relocation was authorized and the agency has moved into the old courthouse in Christian County. The agency is temporarily leasing from the Christian County Fiscal Court at the same rate as the previous lease (\$6.92 per square foot), but with 10% less space. Commissioner Link said the Christian County Fiscal Court would like the agency to remain there and is willing to keep the rent low.

Senator Leeper invited Robbin Taylor, Director of Western Kentucky University (WKU) Governmental Relations, to discuss the university's project report. Ms. Taylor said WKU has purchased two shuttle buses without appropriate authorization. (KRS 45.750 and KRS 45.760 require that all major items of equipment costing more than \$100,000 are to be authorized by the General Assembly.) Each bus cost \$178,000 and is being acquired under a five year lease-purchase agreement for \$38,000 a year. When WKU realized the mistake (unauthorized acquisition), Ms. Taylor said they called the committee's staff and were there to beg the committee's forgiveness. Representative Wayne asked if WKU parking fees would be used as the source of funds. Ms. Taylor confirmed the source and noted that because of a lack of parking spaces, WKU has operated six shuttle buses for several years to bring students into the core campus. She also noted that WKU has requested \$2,000,000 in federal funds to purchase additional shuttle buses. WKU will be amending its capital plan to include this need for additional buses. Senator Leeper asked whether WKU will request authorization for the two buses already under contract in the next budget. Ms. Taylor said they would do this if directed by the committee. Representative Wayne made a motion requesting that WKU make a budget request for the buses. The motion was seconded and approved by voice vote.

Next on the agenda were five Kentucky Infrastructure Authority (KIA) projects proposed for assistance. Since the meeting was out-of-town, the Co-Chairs had not requested KIA staff to attend the meeting, and Ms. Collins made the report. The first of the five projects was for a Fund A1 planning loan for the City of Junction City, Boyle County, in the amount of \$143,500, to design wastewater systems to serve 166 homes in Boyle and Lincoln Counties. The next project was a restructuring of a prior Fund C loan made to South Graves County Water District in 1991 and supplemented in 1993. The South Graves Water District is delinquent on principal and interest of \$160,000, and KIA has agreed to restructure the loan which is now \$839,073. The new loan terms allow for no payments until 2005, and from 2005 until 2009, only interest and the service fee would be paid. In 2010, the payments would be for principal and interest. The next project was a Fund C loan to the Knott County Water and Sewer District in the amount of \$558,321 to install 70,000 feet of waterlines to serve 350 new customers and the existing customer base of 148. The fourth project was a Fund F1 planning loan in the amount of \$500,000 to the City of Paintsville, Johnson County, to design a new drinking water treatment plant. for Johnson, Floyd, Lawrence, Magoffin, and Morgan Counties. The final project was a Fund F loan in the amount of \$1,952,656 to the Carroll County Water District to construct waterlines to add 32 customers to the existing base of 2,534.

Representative Damron made a motion to approve the five KIA projects. The motion was seconded by Representative Wayne and passed by unanimous roll call vote.

The next items on the agenda were various KIA projects undertaken under the 2020 Fund and the new Coal/Tobacco Fund. There were no questions, and no committee action was required.

Senator Leeper then invited Mr. George Burgess, Executive Director, Office of Financial Management, to discuss two new bond projects: State Property and Buildings Commission (SPBC) Agency Fund Revenue and Refunding Bonds, Project No. 80 in an amount not to exceed \$100 million; and Kentucky Housing Corporation Housing (KHC) Revenue Bonds, 2003 Series F and Series G in an amount not to exceed \$175 million. Representative Damron made a motion to approve the SPBC bond issue. The motion was seconded by Representative Wayne and passed by unanimous roll call vote.

Representative Marcotte made a motion to approve the KHC bond issue. The motion was seconded by Representative Wayne and passed by unanimous roll call vote.

Mr. Burgess said the University of Louisville Consolidated Education Buildings Revenue Bonds had been withdrawn from the agenda. He said also included in members' folders were four follow-up reports for previously approved bond issues: University of Louisville Housing and Dining System Refunding Revenue Bonds, Series F, dated August 1, 2003; Western Kentucky University Consolidated Educational Buildings Refunding Revenue Bonds Series O, dated July 1, 2003; University of Kentucky Consolidated Educational Building Revenue Bond Series S, dated July 1, 2003; and State Property and Buildings Commission Revenue and Revenue Refunding Bonds Project No. 77, dated August 20, 2003. Senator Leeper said these bond issues were approved at an earlier meeting and did not require action.

Mr. Burgess next reported five new bonds issues with School Facilities Construction Commission debt service participation: Ashland Independent (Boyd County), Boone County, Edmonson County, Floyd County, and Oldham County. Representative Marcotte made a motion to approve the school bond issues. The motion was seconded by Senator Rhoads and passed by roll call vote. Five members voted affirmatively; Representative Damron abstained from the vote, citing a potential conflict of interest.

Senator Leeper asked if any member had any other questions. Representative Marcotte asked why there has been no progress made on the new visitors center at Big Bone Lick State Park in the last two months. The visitors center is part of a larger land acquisition and parks improvements project authorized as a community development project in the 2000-02 budget (\$1,000,000 Bond Funds). A scope increase for the visitors center was reported to the committee in February 2003 (\$127,000 from the Boone Fiscal

Court and \$60,000 from the Capital Construction Contingency Account). Commissioner Link explained that when bids went out for an excavation subcontractor, the site was advertised as “unclassified” or “as is”, meaning that the subcontractor would have to accept the conditions at the site. The selected subcontractor, upon doing some preliminary work, asked for more money to continue the job. The Finance and Administration Cabinet declined to provide more money and asked the general contractor to pick up the subcontract. He said this situation delayed the project by approximately one month. Representative Marcotte thanked Commissioner Link for his response, but said he was concerned that the Parks Department personnel at the site were not informed about the situation.

Representative Wayne made the observation that a project authorized by the 1998 General Assembly to construct a new state office building in Winchester had not been initiated. He asked that a project update be made at the next meeting of the committee.

With there being no further business, the meeting adjourned at 9:30 AM CDT.